

TAX INCREMENT FINANCE AUTHORITY
OF THE CITY OF LANSING

JUNE 30, 2004

Auditing Procedures Report

33-7-509

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other	Local Government Name Tax Increment Financing Authority of the City of Lansing	County Lapeer
Audit Date June 30, 2004	Opinion Date August 9, 2004	Date Accountant Report Submitted to State: On or about December 10, 2004

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			X
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Kutas & Associates, P.C.			
Street Address 6017 West St. Joseph	City Lansing	State MI	ZIP 48917
Accountant Signature <i>Stephen B. Kutas</i> CPA		Date 1-24-05	



KUTAS & ASSOCIATES, PC

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Tax Increment Finance Authority of
the City of Lansing

We have audited the accompanying financial statements of the governmental activities and each major fund of the Tax Increment Finance Authority of the City of Lansing, a component unit of the City of Lansing, as of and for the year ended June 30, 2004, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Tax Increment Finance Authority of the City of Lansing's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Tax Increment Finance Authority of the City of Lansing, as of June 30, 2004, and the respective changes in financial position thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 2 through 7 and pages 18 and 19 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements which collectively comprise the Tax Increment Finance Authority of the City of Lansing's basic financial statements. The comparative individual fund financial statements (pages 20 and 21) as of and for the years ended June 30, 2004 and 2003 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole. The schedule of assessments on page 22 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Kutas & Associates, P.C.

August 9, 2004
Lansing, Michigan



DEPARTMENT OF PLANNING AND NEIGHBORHOOD DEVELOPMENT

309 N. WASHINGTON SQ., SUITE 016 • LANSING, MI 48933 • (517) 483-4140 • FAX: (517) 483-6057

ECONOMIC DEVELOPMENT CORPORATION

Tax Increment Finance Authority
Brownfield Redevelopment Authority

Tony Benavides, Mayor

TAX INCREMENT FINANCE AUTHORITY OF THE CITY OF LANSING

MANAGEMENT'S DISCUSSION AND ANALYSIS

As financial management of the Tax Increment Finance Authority of the City of Lansing (the Authority), we offer readers of these financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2004. This discussion and analysis is designed to assist the reader in focusing on significant financial issues and to identify any significant changes in the Authority's financial position. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole.

Financial Highlights

Operating income for the Tax Increment Finance Authority of the City of Lansing was \$3,317,276 for the fiscal year ended June 30, 2004. This was an increase of 13% over the prior year. The term "net assets" refers to the difference between assets and liabilities. At the close of the fiscal year ended June 30, 2004, the Authority had liabilities that exceeded assets by \$22,363,635, an increase in net assets of 13% over the prior year.

Authority's Highlights

For the last ten years, the City has continued to focus economic efforts and incentives in improving the City's core area – the downtown. These efforts have included 1) the Neighborhood Enterprise Zone designation for the redevelopment of 2nd and 3rd story buildings for loft units, 2) façade improvement grant funds focused on the primary shopping and retail corridor on Washington Square, 3) a small business revolving loan fund program, and 4) a new office occupancy grant program designed to attract new office tenants to the large amount of vacant commercial space in downtown Lansing. All of these initiatives have led to public dollars invested in a designated area and leveraging large private investments in older building improvements. In addition, the City, its Board of Water and Light, the State's MSHDA agency and the Authority have invested in providing streetscape improvements, completing the North 100 and South 100 blocks of Washington Square in the previous two fiscal years as a strong signal of the importance to continue public investment in our urban core area. Tracking both private investment with public incentives over the past four years that some of our attraction programs have been in place, shows an impressive value of new redevelopment activities.

TAX INCREMENT FINANCE AUTHORITY OF THE CITY OF LANSING

MANAGEMENT'S DISCUSSION AND ANALYSIS – (Continued)

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's financial statements, which are comprised of the basic financial statements and the notes to the financial statements. This report also contains other supplementary information concerning the Authority's budget to actual comparisons and comparative financial statements by individual fund.

Basic Financial Statements

The basic financial statements are designed to provide readers with a broad overview of the Authority's finances.

Government-Wide Financial Statements - The statement of net assets presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The statement of activities presents information showing how the Authority's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying events occur, regardless of the timing of related cash flows. Thus revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Fund Financial Statements - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities and objectives. The Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Authority are categorized as governmental funds.

Governmental Funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of expendable resources, as well as on balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

TAX INCREMENT FINANCE AUTHORITY OF THE CITY OF LANSING

MANAGEMENT'S DISCUSSION AND ANALYSIS – (Continued)

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for government activities in the government-wide financial statements. By doing so, readers may better understand the long-term effect of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information concerning the Authority's budget to actual comparisons and comparative financial statements by individual fund.

Financial Analysis

Net assets may serve, over time, as a useful indicator of a government's financial position. In the case of the Authority, liabilities exceeded assets by \$22,363,635 at the close of the fiscal year ended June 30, 2004. This represents an increase in net assets of \$3,317,276 (13%) over the previous year, all of which is attributable to operations. All of the Authority's net assets are unrestricted as of June 30, 2004.

The Authority has liabilities that exceed assets primarily due to long-term obligations related to general obligation tax increment bonds issued by the Authority. The bonds were issued by the Authority to provide funds for work on the Convention/Exhibition Center and Waterfront Project and to advance refund other tax increment bonds. The City has shown the assets financed by these obligations in its financial records.

Net Assets

	2004	2003
Total Assets	\$ 1,393,772	\$ 1,443,029
Current Liabilities	\$ 5,350	\$ 4,900
Long-Term Liabilities	23,752,057	27,119,040
Total Liabilities	\$ 23,757,407	\$ 27,123,940
Total Net Assets	\$(22,363,635)	\$(25,680,911)

TAX INCREMENT FINANCE AUTHORITY OF THE CITY OF LANSING

MANAGEMENT'S DISCUSSION AND ANALYSIS – (Continued)

Changes in Net Assets

While new building projects and redevelopment in the City's downtown continue, the high office vacancy factor that has led to many Michigan Tax Tribunal (MTT) reductions for the Authority's district properties have caused annual tax revenues to decrease by 4% in the last fiscal year. Interest revenues continue to be lower due to the continued drop in investment yield rates. The Authority also paid for debt service associated with the City's Convention Center, Lansing Center, as well as debt service associated with the completed Circuit Court facility. No new capital projects were completed during the current fiscal year. Current commitments for future capital expenditures include ongoing capital expenditures on the aforementioned projects as well as some modest landscape improvements to the 200 S. Washington Square block.

	2004	2003
Revenues:		
General Revenues:		
Property Taxes	\$ 4,863,392	\$ 5,058,340
Interest	9,974	38,215
Total Revenues	\$ 4,873,366	\$ 5,096,555
Expenses:		
Community Development	1,556,090	2,151,605
Change in Net Assets	\$ 3,317,276	\$ 2,944,950
Net Assets, Beginning of Year	(25,680,911)	(28,625,861)
Net Assets, End of Year	<u>\$(22,363,635)</u>	<u>\$(25,680,911)</u>

Budgetary Highlights

Significant differences between the original and final budgets are briefly summarized below:

1. Decrease in interest revenues due to continued drop in investment yield.
2. Decrease in administrative expenditures due to tax revenue reductions as a result of prior year tax roll adjustments.

TAX INCREMENT FINANCE AUTHORITY OF THE CITY OF LANSING

MANAGEMENT'S DISCUSSION AND ANALYSIS – (Continued)

Significant differences between the final budget and the actual results are briefly summarized below:

1. Lower than anticipated property tax revenues collected due to larger tax reduction for MTT property settlements for previous years tax roll adjustments.
2. Decrease in interest revenues due to continued drop in investment yield rates.

Supplemental appropriations were funded from available fund balance. During the year, expenditures that resulted from previous years tax roll adjustments exceeded revenues so the need to draw upon the existing fund balance was realized.

Economic Factors and Next Year's Budget

The Authority anticipated tax revenues for fiscal year ended June 30, 2004 to decrease as a result of the previously mentioned MTT property tax reductions. However, some of the MTT settlements occurred earlier than anticipated and those settlements were deducted from our current year property tax capture, necessitating a higher use of fund balance than expected. We continue to see additional investment and growth in the downtown area, we believe this growth to be spurred by the variety of economic incentives offered for residential loft and commercial development projects. Comprehensive discussions with the State of Michigan's Department of Management & Budget have realized recent lease space requests within the boundaries of the Authority's district. Hundreds of state employees are expected to move back into our urban core by late in 2005. More lease space requests are anticipated to occur within the next 12 months.


The Authority anticipates next years tax revenues for fiscal year ending June 30, 2005 to increase by approximately 5.5% over current year, notwithstanding any significant MTT tax reductions still pending. This modest revenue increase is projected due to the continuance of residential and commercial developments currently programmed. Some other larger downtown projects expected to commence in early 2003 have still been delayed due to a variety of economic factors.

TAX INCREMENT FINANCE AUTHORITY OF THE CITY OF LANSING

MANAGEMENT'S DISCUSSION AND ANALYSIS – (Continued)

Requests for Information

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Manager, Tax Increment Finance Authority of the City of Lansing, 309 N. Washington, Suite 016, Lansing, MI 48933.


Patricia A. Cook
Manager

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TAX INCREMENT FINANCE AUTHORITY OF THE CITY OF LANSING
STATEMENT OF NET ASSETS
JUNE 30, 2004

ASSETS

	<u>Governmental Activities</u>
ASSETS	
Cash	
Property Taxes Receivable, Less Reserve for S.E.V. Changes and Delinquent Taxes of \$20,839	\$ 364,216
Prepaid Expenses	2,670
	<u>1,026,886</u>
	<u><u>\$ 1,393,772</u></u>

LIABILITIES AND NET ASSETS

LIABILITIES	
Accounts Payable	
Long-Term Liabilities (Note 5):	\$ 5,350
Due Within One Year	
Due After One Year	3,635,255
	<u>20,116,802</u>
TOTAL LIABILITIES	
	\$ 23,757,407
NET ASSETS	
Unrestricted	
	<u>(22,363,635)</u>
	<u><u>\$ 1,393,772</u></u>

See notes to basic financial statements.

TAX INCREMENT FINANCE AUTHORITY OF THE CITY OF LANSING
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004

	<u>Governmental Activities</u>
Expenses:	
Community Development	
Office Expenses	\$ 1,609
Legal and Accounting	5,350
Contracted Services	811,904
Interest	<u>737,227</u>
Net Program Expense	<u>\$ 1,556,090</u>
General Revenues:	
Property Taxes	\$ 4,863,392
Interest	<u>9,974</u>
Total General Revenues	<u>\$ 4,873,366</u>
Change in Net Assets	\$ 3,317,276
Net Assets, Beginning of Year	<u>(25,680,911)</u>
Net Assets, End of Year	<u><u>\$ (22,363,635)</u></u>

See notes to basic financial statements.

**TAX INCREMENT FINANCE AUTHORITY OF THE CITY OF LANSING
BALANCE SHEET - SPECIAL REVENUE FUNDS
GOVERNMENTAL FUNDS
JUNE 30, 2004**

ASSETS

	<u>Convention/ Exhibition Center</u>
ASSETS	
Cash	
Property Taxes Receivable, Less Reserve for S.E.V. Changes and Delinquent Taxes of \$20,839	\$ 364,216
	<u>2,670</u>
	<u><u>\$ 366,886</u></u>

LIABILITIES AND FUND BALANCE

LIABILITIES	
Accounts Payable	\$ 5,350
FUND BALANCE	
Unreserved	<u>361,536</u>
	<u><u>\$ 366,886</u></u>

See notes to basic financial statements.

**RECONCILIATION OF THE BALANCE SHEET-SPECIAL REVENUE FUNDS
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS**

Amounts reported for governmental activities in the statement of net assets are different because:

Total Fund Balance - Governmental Funds	\$ 361,536
Prepaid interest on lease contract with City of Lansing.	1,026,886
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	<u>(23,752,057)</u>
Total Net Assets - Government Activities	<u><u>\$ (22,363,635)</u></u>

**TAX INCREMENT FINANCE AUTHORITY OF THE CITY OF LANSING
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2004**

	Special Revenue Fund		Debt Service Fund	Total Governmental Funds
	Convention/ Exhibition Center			
Revenues:				
Property Taxes	\$ 4,863,392	\$	-	\$ 4,863,392
Interest	9,974		-	9,974
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL REVENUES	\$ 4,873,366	\$	-	\$ 4,873,366
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Expenditures:				
Legal, Accounting and Administrative	\$ 237,875	\$	-	\$ 237,875
Capital Projects - Courts	580,988		-	580,988
Debt Service:				
Interest	-		987,227	987,227
Principal	-		3,366,983	3,366,983
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL EXPENDITURES	\$ 818,863	\$	4,354,210	\$ 5,173,073
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 4,054,503	\$	(4,354,210)	\$ (299,707)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Other Financing Sources (Uses):				
Operating Transfers In - Special Revenues	\$ -	\$	4,354,210	\$ 4,354,210
Operating Transfers Out - Debt Service Fund	(4,354,210)		-	(4,354,210)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL OTHER FINANCING SOURCES (USES)	\$ (4,354,210)	\$	4,354,210	\$ -
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	\$ (299,707)	\$	-	\$ (299,707)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
BEGINNING FUND BALANCE	661,243		-	661,243
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
ENDING FUND BALANCE	\$ 361,536	\$	-	\$ 361,536
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

See notes to basic financial statements.

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**

Amounts reported for governmental activities in the statement of net assets are different because:

Change in Fund Balance - Total Governmental Funds	\$ (299,707)
Additional interest payments on lease contract with City of Lansing.	250,000
Principal payments on long-term obligations that are recorded as reductions of liabilities on the statement of activities.	<u>3,366,983</u>
Change in Net Assets - Government Activities	<u><u>\$ 3,317,276</u></u>

TAX INCREMENT FINANCE AUTHORITY OF THE CITY OF LANSING
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Tax Increment Finance Authority of the City of Lansing (the Authority), a component unit of the City of Lansing, was established by the City of Lansing (the City) on May 26, 1981, under the authority contained in Act 450, Michigan Public Acts of 1981 (the Act). The Act authorizes the City to designate specific districts within its corporate limits as Tax Increment Finance Authority Districts (the Districts). The Authority is appointed to preside over such Districts, and it is authorized to formulate plans for public improvements, economic development, neighborhood revitalization and historic preservation within the Districts. The Act allows the Authority to participate in a broad range of improvement activities intended to contribute to economic growth and prevent property value deterioration. Tax increment financing plans must be approved by the City.

Tax increment financing permits the Authority to capture tax revenues, which are attributable to increases in the value of real and personal property located within an approved District.

Current activities of the Authority include collections of property tax revenues on Districts for the Lansing Convention/Exhibition Center. The Authority is also participating in the financing and construction activities of the Lansing Convention/Exhibition Center Expansion, through the issuance of tax increment financing bonds (See Note 5).

The accounting policies and financial reporting policies of the Authority conform in all material respects to generally accepted accounting principles as applicable to units of government, as issued by the Governmental Accounting Standards Board (GASB).

The Authority's financial statements include the accounts of all of the Authority's functions and activities. There are no component units.

Encumbrance accounting is not used as a part of the budgetary system. All unexpended appropriations lapse at year-end. While appropriations lapse at the end of the fiscal year, the succeeding year's budget procedures provide for the reappropriation of these funds.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of the inter-fund activity has been removed from these statements. Governmental activities are reported separately from business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or identifiable activity are offset by program revenues. Direct expenses are those that are clearly identifiable activities with a specific function or identifiable activity. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a function or identifiable activity and 2) grants and contributions that are restricted to meeting the operational requirement of a particular function or identifiable activity. Property taxes not properly included among program revenues are reportable instead as general revenues.

TAX INCREMENT FINANCE AUTHORITY OF THE CITY OF LANSING
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES – (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Preparation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, except for interest on general long-term obligations, which is recorded when due.

All material governmental fund expenditures are classified as current. All governmental fund revenues of the Authority are considered susceptible to accrual.

GASB Statement No. 34 establishes numerical criteria for determining whether a particular governmental fund should be reported in a separate column as a major fund. The Authority has elected to report all of its governmental funds as major funds because of user interest in the funds.

The Authority reports the following governmental funds:

Special Revenue Fund – includes the activities of Convention/Exhibition Center

Debt Service Fund – includes the activities of the 1994 Tax Increment Finance Authority, General Obligation Tax Increment Bonds

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

General revenues include all property taxes, interest and other miscellaneous receipts.

D. Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of management's estimates. Actual results may differ from those estimates.

TAX INCREMENT FINANCE AUTHORITY OF THE CITY OF LANSING
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES – (Continued)

- E. Property taxes (increments) attach as an enforceable lien on property as of the date they are levied. The City and 50 percent of Lansing School District and Lansing Community College taxes are levied and due July 1 and become delinquent after August 31. The county and the balance of school taxes are levied and due December 1 and become delinquent after February 14. Property taxes are collected for the Authority through the City. Property tax revenues are recognized as levied upon realization of the purpose levied for and to the extent they result in current receivables. The Authority may only utilize these revenues as authorized in the tax increment financing plan. Property tax revenue is recorded as revenue in the period for which levied.

NOTE 2 - BUDGETARY PROCEDURES

The Authority has established the following procedures for determining the budgetary data presented in the accompanying financial statements:

- (1) The secretary of the Authority's board of directors submits to the City Council of the City of Lansing a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them.
- (2) A public hearing is conducted to obtain taxpayer comments.
- (3) Prior to July 1, the budget is legally adopted by City Council resolution, pursuant to the Uniform Budgeting and Accounting Act (P.A. 621). This act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or to allow expenditures in excess of original estimates. Expenditures shall not be made or incurred unless authorized in the budget and shall not exceed the amount appropriated.
- (4) Formal budgetary integration is employed as a management control device during the year for the funds.
- (5) Budgets are adopted on a basis consistent with generally accepted accounting principles.
- (6) The budget is adopted at the functional level as reported in the budgetary comparison schedules, which is included as required supplementary information. Expenditures may not exceed budget at the functional level.

TAX INCREMENT FINANCE AUTHORITY OF THE CITY OF LANSING
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 3 - CASH AND INVESTMENTS

Deposits - At June 30, 2004, the carrying amount of the Authority's deposits was \$96,092 and the bank deposit balance was \$327,008. Cash in banks, based on bank balances was in excess of federally insured limits of \$227,008 at June 30, 2004.

Investments - The Authority's investments are categorized as either (1) insured or registered for which the securities are held by the Authority or its agent in the Authority's name, (2) uninsured and unregistered for which the securities are held by the broker's or dealer's trust department or agent in the Authority's name, or (3) uninsured and unregistered for which the securities are held by the broker or dealer, or by its trust department or agent, but not in the Authority's name. The investment in pooled government funds is not categorized. The market value of the investments approximates cost.

Pooled Government Funds	<u>\$ 268,124</u>
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NOTE 4 - LEASE CONTRACT

On December 20, 1994, the Authority entered into a 20-year lease contract with the City of Lansing to assist in the financing of various automobile parking structures and lots. Upon termination of the contract in accordance with the provisions of Section 2, the City shall convey the project and the sites to the Authority without consideration if permissible under the City Charter and applicable State law and the City ordinances by deed and appropriate bills of sale in such form and manner as may be approved by the City Attorney. The lease amortization is disclosed in Note 5.

NOTE 5 - LONG-TERM LIABILITIES

On December 17, 1994, the Authority issued \$25,108,133 in general obligation tax increment bonds with an average interest rate of 6.55%, to provide funds for additional work on the Convention/Exhibition Center waterfront project and to advance refund \$23,625,000 in outstanding 1992 Tax Increment Bonds with an average interest rate of 5.1%. Refunding funds were used to purchase U.S. government securities, which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1992 bonds. As a result, the 1992 bonds are considered to be defeased, and the liability for those bonds are not included in the Authority's financial statements. The refunding results in an economic loss to the Authority of approximately \$220,000 and cash flow requirements of \$26,171,910 in excess of that required to retire the defeased debt. The amount of defeased debt still outstanding at June 30, 2004 is \$1,875,000. Principal and interest on the obligation are expected to be satisfied through incremental tax revenues levied for the Authority. The bonds are collateralized by the Convention/Exhibition Center District revenues and the pledged full faith, credit and limited taxing power of the City. The defeasance was approved by board resolution on December 7, 1994.

On November 16, 1999, the City of Lansing and County of Ingham Joint Building Authority issued \$13,000,000 in general obligation tax increment bonds with an average interest rate of 5.45% to provide funds for circuit court relocation expenditures. Of this issue, \$7,000,000 in principal plus interest is expected to be satisfied through tax increment revenues levied for the Authority. The Authority will satisfy these payments only to the extent of capture.

TAX INCREMENT FINANCE AUTHORITY OF THE CITY OF LANSING
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 5 - LONG-TERM LIABILITIES – (Continued)

Annual debt service requirements to maturity for the Authority's \$25 million general obligation bonds and the lease contract with the City of Lansing are as follows:

	Fiscal Year Ended June 30,	Principal	Interest	Total
\$25,108,133 - 1994 Tax Increment Finance Authority of the City of Lansing, Tax Increment Bonds				
2005		\$ 3,260,000	\$ 205,380	\$ 3,465,380
2006		-	-	-
2007		42,828	52,172	95,000
2008		85,536	119,464	205,000
2009		123,338	196,662	320,000
2010		157,524	282,476	440,000
2011		185,842	369,158	555,000
2012		212,740	472,260	685,000
2013		235,175	574,825	810,000
2014		251,422	683,578	935,000
2015		267,603	797,397	1,065,000
2016		1,226,997	4,108,003	5,335,000
2017		1,154,012	4,220,988	5,375,000
2018		1,065,164	4,309,836	5,375,000
2019		993,891	4,381,109	5,375,000
2020		916,061	4,458,939	5,375,000
		<u>\$ 10,178,133</u>	<u>\$ 25,232,247</u>	<u>\$ 35,410,380</u>

	Fiscal Year Ended June 30,	Principal	Interest	Total
\$20,170,405 - 1994 Lease Contract With the City of Lansing				
2005		\$ 375,255	\$ 374,745	\$ 750,000
2006		1,902,719	2,242,281	4,145,000
2007		1,774,066	2,365,934	4,140,000
2008		1,656,109	2,483,891	4,140,000
2009		1,545,996	2,594,004	4,140,000
2010		1,443,204	2,696,796	4,140,000
2011		1,348,873	2,796,127	4,145,000
2012		1,257,669	2,882,331	4,140,000
2013		1,174,047	2,965,953	4,140,000
2014		1,095,986	3,044,014	4,140,000
2015*		-	2,340,000	2,340,000
		<u>\$ 13,573,924</u>	<u>\$ 26,786,076</u>	<u>\$ 40,360,000</u>

* The Authority has made advance lease payments to the City of Lansing. Per the lease contract, advance payments on future-due payments shall be applied in inverse order of maturity to the extent of such advance payment. Advance payments for a future year are applied to principal first and then to interest.

TAX INCREMENT FINANCE AUTHORITY OF THE CITY OF LANSING
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 5 - LONG-TERM LIABILITIES – (Continued)

The following advance payments have reduced future amounts owed as noted below:

Fiscal Year Paid	Principal	Interest	Total
1995	\$ 1,023,114	\$ 36,886	\$ 1,060,000
1997	-	240,000	240,000
2002	-	250,000	250,000
2003	-	250,000	250,000
2004	-	250,000	250,000
	<u>\$ 1,023,114</u>	<u>\$ 1,026,886</u>	<u>\$ 2,050,000</u>

During the year ended June 30, 2004, the following changes occurred in long-term liabilities.

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004
General Obligation Limited Tax Bonds Payable, Series 1994	\$ 13,143,133	\$ -	\$ 2,965,000	\$ 10,178,133
Lease Contract – City of Lansing	<u>13,975,907</u>	<u>-</u>	<u>401,983</u>	<u>13,573,924</u>
	<u>\$ 27,119,040</u>	<u>\$ -</u>	<u>\$ 3,366,983</u>	<u>\$ 23,752,057</u>

NOTE 6 - SENATE BILL 1

Senate Bill 1 (SB1) was signed into law during 1994. SB1 eliminated school operating millages from property tax levies and thus significantly reduced funds captured by the Authority. The State of Michigan may cover any shortfall between the funds needed to service the Authority's debt and the funds captured by the Authority. The City of Lansing has pledged its full faith, credit, and limited taxing power as additional security for the payment of principal and interest on the bonds.

NOTE 7 - RELATED PARTY TRANSACTIONS

The Economic Development Corporation of the City of Lansing (EDC) provides administrative services to the Authority; the Authority and the EDC share a common board of directors.

Administrative fees, consisting of personnel costs charged to the Authority by EDC, were \$230,916. The Authority has no liability for compensated absences or pension benefits.

**TAX INCREMENT FINANCE AUTHORITY OF THE CITY OF LANSING
BUDGETARY COMPARISON SCHEDULE
CONVENTION/EXHIBITION CENTER
FOR THE YEAR ENDED JUNE 30, 2004**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Favorable (Unfavorable) Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	
Revenues:				
Property Taxes	\$ 5,116,872	\$ 5,116,872	\$ 4,863,392	\$ (253,480)
Interest	48,200	48,200	9,974	(38,226)
TOTAL REVENUES	\$ 5,165,072	\$ 5,165,072	\$ 4,873,366	\$ (291,706)
Expenditures:				
Legal, Accounting and Administrative	\$ 255,844	\$ 255,844	\$ 237,875	\$ 17,969
Capital Construction Costs	254,000	254,000	-	254,000
Capital Projects - Courts	580,826	580,988	580,988	-
TOTAL EXPENDITURES	\$ 1,090,670	\$ 1,090,832	\$ 818,863	\$ 271,969
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 4,074,402	\$ 4,074,240	\$ 4,054,503	\$ (19,737)
Other Financing Uses:				
Operating Transfers Out- Debt Service Funds	(4,354,210)	(4,354,210)	(4,354,210)	-
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	\$ (279,808)	\$ (279,970)	\$ (299,707)	\$ (19,737)
BEGINNING FUND BALANCE	661,243	661,243	661,243	-
ENDING FUND BALANCE	\$ 381,435	\$ 381,273	\$ 361,536	\$ (19,737)

See notes to basic financial statements.

TAX INCREMENT FINANCE AUTHORITY OF THE CITY OF LANSING
BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
FOR THE YEAR ENDED JUNE 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Favorable</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>(Unfavorable)</u>
				<u>Variance with</u>
				<u>Final Budget</u>
Expenditures:				
Interest	\$ 987,227	\$ 987,227	\$ 987,227	\$ -
Principal	3,366,983	3,366,983	3,366,983	-
TOTAL EXPENDITURES	<u>\$ 4,354,210</u>	<u>\$ 4,354,210</u>	<u>\$ 4,354,210</u>	<u>\$ -</u>
EXCESS (DEFICIENCY) OF				
REVENUES OVER EXPENDITURES	\$ (4,354,210)	\$ (4,354,210)	\$ (4,354,210)	\$ -
Other Financing Uses:				
Operating Transfers In-				
Convention/Exhibition Center	<u>4,354,210</u>	<u>4,354,210</u>	<u>4,354,210</u>	<u>-</u>
EXCESS (DEFICIENCY) OF				
REVENUES OVER (UNDER)				
EXPENDITURES AND				
OTHER FINANCING USES	\$ -	\$ -	\$ -	\$ -
BEGINNING FUND BALANCE	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
ENDING FUND BALANCE	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

See notes to basic financial statements.

**TAX INCREMENT FINANCE AUTHORITY OF THE CITY OF LANSING
CONVENTION/EXHIBITION CENTER
COMPARATIVE BALANCE SHEETS
JUNE 30, 2004 AND 2003**

ASSETS

	<u>2004</u>	<u>2003</u>
Cash		
Property Taxes Receivable, Less Reserve for S.E.V. Changes and Delinquent Taxes of \$20,839 and \$37,387 for 2003 and 2002, Respectively	\$ 364,216	\$ 664,044
	<u>2,670</u>	<u>2,099</u>
	<u><u>\$ 366,886</u></u>	<u><u>\$ 666,143</u></u>

LIABILITIES AND FUND BALANCE

LIABILITIES		
Accounts Payable	\$ 5,350	\$ 4,900
FUND BALANCE		
Unreserved	<u>361,536</u>	<u>661,243</u>
	<u><u>\$ 366,886</u></u>	<u><u>\$ 666,143</u></u>

See notes to basic financial statements.

**TAX INCREMENT FINANCE AUTHORITY OF THE CITY OF LANSING
CONVENTION/EXHIBITION CENTER
COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
Revenues:		
Property Taxes	\$ 4,863,392	\$ 5,058,340
Interest	<u>9,974</u>	<u>38,215</u>
TOTAL REVENUES	<u>\$ 4,873,366</u>	<u>\$ 5,096,555</u>
Expenditures:		
Legal, Accounting and Administrative	\$ 237,875	\$ 258,750
Capital Construction Costs	-	418,000
Capital Projects - Courts	<u>580,988</u>	<u>579,009</u>
TOTAL EXPENDITURES	<u>\$ 818,863</u>	<u>\$ 1,255,759</u>
EXCESS REVENUES OVER EXPENDITURES	\$ 4,054,503	\$ 3,840,796
Other Financing Uses:		
Operating Transfers Out-		
Debt Service Funds	<u>(4,354,210)</u>	<u>(4,251,460)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	\$ (299,707)	\$ (410,664)
BEGINNING FUND BALANCE	<u>661,243</u>	<u>1,071,907</u>
ENDING FUND BALANCE	<u><u>\$ 361,536</u></u>	<u><u>\$ 661,243</u></u>

See notes to basic financial statements.

TAX INCREMENT FINANCE AUTHORITY OF THE CITY OF LANSING
SCHEDULE OF ASSESSMENTS
JUNE 30, 2004
(UNAUDITED)

	Assessment		Captured
	Current Base	December 31, 2003	
Project:			
Convention/Exhibition Center:			
Personal, Real, CFT Restored	\$ 23,141,302	\$ 105,298,704	\$ 82,157,402
Convention/Exhibition Center Expansion:			
Personal, Real, CFT Restored	18,947,485	23,694,257	4,746,772
	<u>\$ 42,088,787</u>	<u>\$ 128,992,961</u>	<u>\$ 86,904,174</u>

Assessments are stated at the state equalized value as determined by the City of Lansing Assessor's Office.